

County of Roanoke, Virginia
Management's Discussion and Analysis
For the Year Ended June 30, 2005

The following discussion and analysis of the County of Roanoke (the "County") financial performance provides an overview of financial activities for the year ended June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report, and the County's basic financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended.

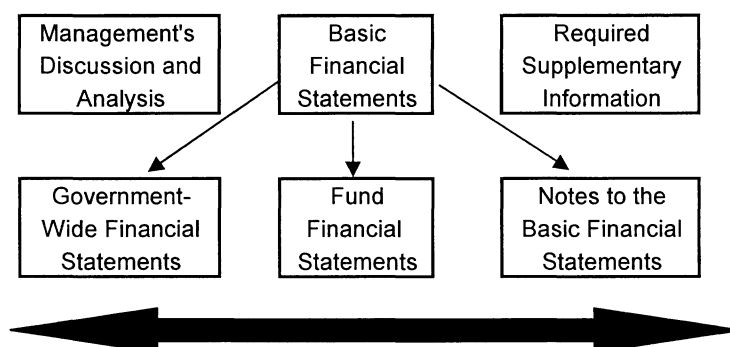
FINANCIAL HIGHLIGHTS

- The total assets of the County of Roanoke Governmental Activities exceeded its liabilities as of June 30, 2005 by \$85.2 million (*net assets*). Of this amount, \$25.3 million (*unrestricted net assets*) may be used to meet the County's future obligations to citizens and creditors (Exhibit I).
- During the year, the County's taxes and other revenues for governmental programs were \$11.5 million more than the \$138.9 million of expenses (Exhibit II).
- The County's outstanding debt decreased by \$8.9 million, or 6.6% during the year. During 2004-05 no new debt was issued or refunded and debt payments reduced the principal balance of outstanding debt.
- Component unit net assets increased by \$4.8 million to \$50.9. Of this amount, \$18.3 million is unrestricted while \$32.6 million is invested in capital assets (Exhibit I).
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$12.9 million or 8.8% of fiscal year 2005 general fund revenues. The Board of Supervisors has adopted a policy to keep the undesignated general fund balance at a range of 7.0%-8.0% for fiscal year 2004-05. This range will increase to 7.5%-8.5% for fiscal year 2005-06.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The financial section of the comprehensive annual financial report consists of the following:

Components of the Financial Section



Management's discussion and analysis is intended to serve as an introduction to the County of Roanoke's basic financial statements. The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition, required supplementary information accompanies the basic financial statements but is unaudited.

Historically, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified and the basic financial statements present two types of financial statements, each with a different view of the County's finances, the County as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the County's overall financial position. The fund financial statements focus on the individual funds of the County, reporting the County's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the County's accountability.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements provide information about the County as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question: "Is the County's financial position, as a whole, better or worse as a result of the year's activities?"

One of the main goals of these two statements is to report the County's net assets and changes that affected net assets during the fiscal year. The change in the County's net assets, the difference between assets and liabilities, is one way to measure the County's financial health, or financial position. Increases and decreases in net assets are indicators of whether the County's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the County's property tax base and the condition of the County's infrastructure should also be considered in assessing the overall financial health of the County.

In the Statement of Net Assets and the Statement of Activities, the County's fund-based activity is classified as follows:

- Governmental activities – Most of the County's basic services are reported as governmental activities, including public safety, public works, judicial administration, library, health and welfare, parks, recreation and cultural, community development, education, and general government. Property and other local taxes, and state and federal grants finance most of these activities.
- Component Unit – The County includes a separate legal entity in its report – Roanoke County Public Schools. Although legally separate, a component unit is important because the County is financially accountable for the school division and provides operating and capital funding.

Fund Financial Statements

Government financial statements have traditionally been prepared using the fund financial statement presentation. They provide more detailed information about the County's funds, focusing on its most significant or "major" funds – not the system as a whole. The County utilizes three types of funds:

- Governmental funds: Most of the County's basic services are reported in governmental funds, which focus on how resources flow into and out of those funds and the remaining balances at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it

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provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation accompanying the fund financial statements.

- Proprietary funds: The County uses Internal Service funds to provide for health, dental, and workers' compensation coverage for County and School employees and for County general and automobile liability coverage.
- Fiduciary funds: Resources held for other governments, individuals or agencies not part of the County are reported as fiduciary funds. These activities are excluded from the government-wide financial statements because the County cannot use these assets to finance its operations. The County acts in an agency capacity or fiscal agent, for the Roanoke Valley Resource Authority, the Roanoke Valley Regional Board, the Industrial Development Authority of Roanoke County, Virginia Recreational Facilities Authority, the Western Virginia Water Authority and other local agencies. Agency funds are custodial in nature and do not involve measurement of results of operations.

The governmental fund financial statements can be found beginning on page 32 of this report.

Notes to the basic financial statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 40 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's budgetary comparisons and progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 72 of this report.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Summary of Net Assets

The following table reflects the condensed Summary of Net Assets as presented in the government-wide financial statements:

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Summary of Net Assets As of June 30, 2005 and 2004				
	Governmental Activities		Component Unit	
	FY2005	FY2004	FY2005	FY2004
Current and other assets	\$ 92,222,620	\$ 101,740,154	\$ 26,362,598	\$ 22,697,755
Capital assets, net	137,932,463	127,664,477	32,586,897	31,267,460
Total Assets	<u>230,155,083</u>	<u>229,404,631</u>	<u>58,949,495</u>	<u>53,965,215</u>
Other Liabilities	23,806,549	26,021,669	5,835,653	5,436,280
Long-Term Liabilities	121,108,421	129,964,438	2,199,617	2,387,945
Total Liabilities	<u>144,914,970</u>	<u>155,986,107</u>	<u>8,035,270</u>	<u>7,824,225</u>
Invested in capital assets, net of related debt	59,965,492	49,662,346	32,586,897	31,267,460
Unrestricted	25,274,621	23,756,178	18,327,328	14,873,530
Total Net Assets	<u>\$ 85,240,113</u>	<u>73,418,524</u>	<u>\$ 50,914,225</u>	<u>\$ 46,140,990</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceed liabilities by \$85.2 million at the close of fiscal year 2005. This represents a 16.1% increase over last year.

The largest portion of the County's net assets (70.3%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that are outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance is unrestricted net assets (29.7%) that may be used to meet the County's ongoing obligations to citizens and creditors.

In the case of the Roanoke County Public Schools (School System), assets exceed liabilities by \$50.9 million at the close of fiscal year 2005. This increase of \$4.8 million over the prior year is the result of excess revenue collections and spending less than budgeted for departmental costs in fiscal year 2005. The General Assembly adopted a state-wide tax of 1/8 cent designated for education during fiscal year 2005. This first-year tax and the improving economy contributed to higher sales tax collections than anticipated. The largest portion of the School System's net assets (64%) reflects its investment in capital assets. The remaining balance of unrestricted net assets (\$18.3 million) may be used to meet the School System's future obligations to citizens and creditors.

At the end of the current fiscal year, the County and School System were able to report a positive balance in all categories of net assets, both for the primary

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government as a whole, as well as for its separate governmental, business-type activities, and component unit. The same situation held true for the prior fiscal year.

The above Summary of Net Assets as of June 30, 2004 excludes the financial information related to the Business-Type Activities which were transferred to the Western Virginia Water Authority (WVWA) on July 1, 2004. See note 17 of the notes to the basic financial statements for additional information regarding the transfer of the funds to the WVWA.

Changes in Net Assets

The following table shows the revenue and expenses of the government-wide activities:

Changes in Net Assets For the Fiscal Years Ended June 30, 2005 and 2004				
	Governmental Activities		Component Unit	
	FY2005	FY2004	FY2005	FY2004
Revenues				
Program Revenue				
Charges for services	\$ 7,663,160	\$ 6,823,055	\$ 4,055,173	\$ 3,917,720
Operating grants & contributions	19,093,596	20,137,004	18,697,499	16,140,335
Capital grants & contributions	-	-	1,086,315	1,105,548
General Revenue				
Property taxes	80,871,866	76,391,960	-	-
Sales taxes	7,535,512	7,191,994	-	-
Other taxes	20,928,761	20,598,641	-	-
Contributions	12,096,599	11,189,906	-	-
Other revenues	2,188,883	1,584,383	48,105,721	40,341,020
Payments from the County	-	-	56,675,543	56,539,339
Total revenues	150,378,377	143,916,943	128,620,251	118,043,962
Expenses				
General government	6,896,800	6,573,955	-	-
Judicial administration	2,029,037	2,411,805	-	-
Public safety	30,689,745	29,247,497	-	-
Public works	13,073,960	11,924,364	-	-
Library	2,790,112	2,459,616	-	-
Health & welfare	12,649,528	11,355,547	-	-
Parks, recreation & culture	3,968,259	5,348,664	-	-
Community development	3,588,395	4,268,386	-	-
Education	57,195,060	58,470,615	123,847,016	116,989,636
Interest and other charges	5,982,564	4,794,091	-	-
Total expenses	138,863,460	136,854,540	123,847,016	116,989,636
Transfer	-	11,000,000	-	-
Changes in net assets	11,514,917	18,062,403	4,773,235	1,054,326
Net assets beginning of year (as restated)*	73,725,196	55,356,121	46,140,990	45,086,664
Net assets end of year	\$ 85,240,113	\$ 73,418,524	\$ 50,914,225	\$ 46,140,990

* See footnote 17 of the basic financial statements

The County's total revenues increased over the prior year by 4.5% to \$150.4 million and expenses for all programs and services rose 1.5% to \$138.9 million.

Approximately 53.8% of the County's revenues come from property taxes, 13.9% from other taxes, 5.1% from charges for services, 12.7% operating grants and contributions, 8.0 % from contributions, 5.0% from sales tax and 1.5% from other and miscellaneous.

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The County's expenses cover a range of services, with about 41.2% related to Education, 22.1% to Public Safety and 9.4% to Public Works.

Governmental Activities

Governmental activities increased the County's net assets by \$11.5 million. Revenues for governmental activities increased \$6.5 million (4.5%) and total expenses increased \$2 million (1.5%) when compared to the prior year. Key elements of these changes were as follows:

- Property tax revenues increased by \$4.5 million (5.9%) during the year. This increase is due to an average increase of 6% in the assessed valuation of taxable real property.
- Sales and other tax revenues increased \$0.7 million (2.4%) during the year. This increase is attributed to a better economic outlook than originally anticipated.
- Other revenues increased by \$0.6 million (38.2%) during the year. This increase is attributed to improvement in the investment rates.
- Public Works expenses increased \$1.1 million as a result of additional costs related to the increased service level to residences for bulk and brush pick up every other week.
- Health and welfare expenses increased \$1.3 million as a result of state mandated increases in social service caseloads for youth from the courts and schools requiring additional funding for Community Policy Management Team (CPMT).
- Governmental expenses increased due to cost of living adjustments to salaries and increases to health insurance premiums.

Component Unit

Component unit increased its net assets by \$4.8 million. Revenues for component unit activities increased \$10.6 million (8.9%) and total expenses increased by \$6.9 million (5.9%). Key elements of these changes are as follows:

- Operating grants and contributions increased by 15.8% as a result of increases in state categorical revenues earmarked for specific programs.
- Other revenues increased by 19.2% when the General Assembly committed a significant portion of state revenues to school division in the first year of the state's biennial budget. A sales tax increase of 1/8 cent was earmarked for schools districts based on the most recent triennial census data.
- Education expenses increased due to cost of living adjustments to salaries, increases in health insurance premiums, and additional instructional personnel.

The above Summary of Changes in Net Assets for the year ended June 30, 2004 excludes the financial information related to the Business-Type Activities which were

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transferred to the Western Virginia Water Authority (WVWA) on July 1, 2004. See note 17 of the notes to the basic financial statements for additional information regarding the transfer of the funds to the WVWA.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved, undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the County completed the year, its governmental funds reported a combined governmental fund balance of \$68 million, a decrease compared to the previous year. Approximately \$42.4 million constitutes unreserved fund balance, of which \$13.1 million is available for governmental spending and \$29.3 million is designated by management for tentative spending plans. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved and designated fund balance of the general fund was \$5.4 million, while total fund balance reached \$18.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.4% of total general fund expenditures. Of unreserved fund balance, undesignated amount of \$12.9 million represents 10.1% of total general fund expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's budget is prepared in accordance with the *Code of Virginia*. During the year, the County amended the original budget primarily for the following purposes:

- To reappropriate monies to pay for commitments in the form of encumbrances established prior to June 30, 2005 but not paid by that date.
- To reappropriate grants, donations and other revenues authorized in fiscal year 2005 or earlier, but not expended or encumbered as of June 30, 2005.
- To appropriate grants, donations, and other revenues accepted or adjusted in fiscal year 2005 when official notice of approval was received.
- To appropriate the designated general fund balance to capital projects.

Below is a condensed version of the budgetary comparison of the General Fund original budget, amended budget, and actual amounts for fiscal year 2005.

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Budgetary Highlights for 2005

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>
Revenues	\$ 147,255,793	\$ 146,052,091	\$ 146,078,205
Expenditures	74,418,770	77,456,959	72,145,970
Transfers	<u>72,837,023</u>	<u>75,021,502</u>	<u>74,666,165</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (6,426,370)</u>	<u>\$ (733,930)</u>

CAPITAL ASSETS

As June 30, 2005, the County had invested \$137.9 million, net of accumulated depreciation, in a variety of capital assets including land, buildings, construction in progress, land improvements, and equipment. The total net increase in the County's investment in capital assets for the current year was \$11.8 million.

Additional information on the County's capital assets can be found in note 9 of the notes to the basic financial statements. Capital assets are illustrated in the following table:

Capital Assets As of June 30, 2005 and 2004				
	Governmental Activities FY 2004		Component Unit	
	<u>FY2005</u>	<u>As Restated</u>	<u>FY2005</u>	<u>FY2004</u>
Land	\$ 10,084,962	\$ 10,084,962	\$ 5,510,562	\$ 5,137,412
Buildings, improvements and systems	140,660,818	117,020,311	48,240,182	47,953,912
Furniture, fixtures, and equipment	30,708,199	29,265,070	15,592,793	14,519,486
Construction in progress	7,259,570	15,468,231	3,485,077	2,259,889
Subtotal	<u>188,713,549</u>	<u>171,838,574</u>	<u>72,828,614</u>	<u>69,870,699</u>
Accumulated depreciation	(50,781,086)	(45,722,425)	(40,241,717)	(38,603,239)
Totals	<u>\$ 137,932,463</u>	<u>\$ 126,116,149</u>	<u>\$ 32,586,897</u>	<u>\$ 31,267,460</u>

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Major capital asset events during the current fiscal year included the following:

- Changes in new federal programs regulating Storm Water Management for the quality of storm water run-off, detention, and retention ponds within the County at a cost of \$200,000.
- Land improvements at the Center for Research and Technology at a cost of \$1.9 million.
- Renovation to the Salem Office Supply building at a cost of \$2.3 million.
- Addition to Bent Mountain Library at a cost of \$49,900.

LONG-TERM DEBT

At June 30, 2005, the County had a number of bonded debt issues outstanding. These include \$23.3 million of general obligation debt and \$69.7 million of Virginia Public School Authority bonds for School purposes. In addition, \$7.7 million outstanding for literary loan debt issued for School capital projects and \$26.3 million outstanding of lease revenue bonds. Although the issuance of bonds by Virginia counties is not subject to any limitations on amount, counties are prohibited from issuing general obligation bonds unless the issuance has been approved by public referendum.

The County has adopted a debt policy that establishes guidelines and limitations for the issuance of debt. The debt policy addresses the level of indebtedness the County can reasonably expect to incur without jeopardizing its financial position and to ensure the efficient and effective operation of the County. The County measures its level of debt through three ratios: 1) net debt per capita (excluding business type funds) should not exceed \$2,500, 2) net debt per assessments should not exceed 3%, and 3) debt service to general fund expenditures should not exceed 10%. As of June 30, 2005, the County's net debt per capita ratio was \$1,440, the net debt to assessments ratio was 1.84, and the percent of debt service to general expenditures was 6.63%.

The County has maintained bond ratings on outstanding debt of AA from Standard & Poor's Corporation and Aa2 from Moody's Investor Service.

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Additional information on the County's long-term debt can be found in note 8 of the notes to the basic financial statements. The following table illustrates the County's outstanding debt:

Outstanding Debt		
As of June 30, 2004 and 2005		
	Governmental Activities	
		FY2004
	FY2005	As Restated
General Obligation Bonds	\$ 23,287,203	\$ 25,736,418
Lease Revenue Bonds	26,281,871	26,703,265
Virginia Public School Authority Bonds	69,708,272	74,499,309
Literary Fund Loans	7,738,562	8,622,594
Capitalized Lease Obligations	-	372,109
Totals	<u>\$ 127,015,908</u>	<u>\$ 135,933,695</u>

FACTORS INFLUENCING FUTURE BUDGETS

Key factors that are expected to impact future budget include:

- Uncertainty regarding the economy and state funding.
- Projected increases in health insurance premiums and retirement contribution rates assessed by the Virginia Retirement System.
- Funding for the Capital Improvement Program

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, County of Roanoke, 5204 Bernard Drive, Suite 300E, Roanoke, Virginia 24018, telephone (540) 772-2020, or visit the County's web site at www.roanokecountyva.gov.

Additional information on the Component Unit can be obtained in the separately published Roanoke County Public Schools comprehensive annual financial report. Please contact the Director of Budget and Finance, Roanoke County Public Schools, 5937 Cove Road, Roanoke, Virginia 24019, or visit the School's web site at www.rcs.k12.va.us.